

Fiscal Year
2003

State of New Hampshire Annual Report to the Citizens

Prepared by the Department of Administrative Services



Photo(L-R) Back: Commissioner Hill, Councilor Wheeler, Councilor Spaulding.
Front: Councilor Wieczorek, Councilor Griffin, Governor Benson, Councilor Burton.

Selected State Officials:

Governor

Craig Benson

Executive Council

Raymond Burton, District 1
Peter Spaulding, District 2
Ruth Griffin, District 3
Raymond J. Wieczorek, District 4
David Wheeler, District 5

President of the Senate

Thomas R. Eaton
24 Senators

Speaker of the House of Representatives

Gene G. Chandler
400 Representatives

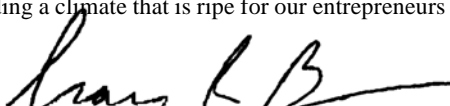
Message from the Governor

I am pleased to accept the *Fiscal Year 2003 State of New Hampshire Annual Report to the Citizens*.

New Hampshire, like most other states, has experienced an economic slowdown over the past few years and although the impact of this recession has not been as severe as in the early 1990's, the state's financial reserves have declined. In the spirit of New Hampshire's long history of fiscal discipline, I have introduced a constitutional amendment called the Taxpayer's Bill of Rights, which is a long term philosophy to limit spending growth to increases in population and inflation. My administration is dedicated to the state living within its means and we will work tirelessly to do just that by examining every corner of the budget. The budget gives me flexibility to make various budgetary adjustments and contingency plans are being developed to reduce spending even further. The budget also includes very conservative revenue estimates, and with the improving economy, revenues should exceed those estimates. These dollars from savings will be transferred to the Rainy Day Account to restore our reserves to acceptable levels.

In addition the Governors Efficiency Committee has generated several new initiatives to save dollars by consolidating various administrative functions and looking at ways we can do business better. We have already consolidated Information Technology, which will allow us to reduce the cost of services and make services easily accessible to the citizens of this state.

Despite the financial pressures, New Hampshire continues to be one of the best places in the nation to live, work and raise a family. Unemployment rates have remained low and per capita personal income has grown faster than the national and regional rates. In addition, there are indications that the state is poised for economic and employment recovery ahead of other states in the region. Lastly, I have teamed up with Public Service of New Hampshire to offer \$250,000 in awards for best business competition plans for *Start Up New Hampshire* and our Office of Business & Industrial Development is helping to attract new business and retain existing companies. All in all, New Hampshire is building a climate that is ripe for our entrepreneurs to succeed, and to lead us to a stronger future.


Craig Benson, Governor

Report from the Commissioner


We are pleased to present our Fiscal Year 2003 *Annual Report to the Citizens*, prepared by the Department of Administrative Services. The format of this report changed from the prior year's Citizens Report in order to give readers a more concise view of state finances in a cost effective manner. Our financial reporting goal is to continue to deliver quality information in a timely manner to allow users to understand the somewhat complicated financial picture of the state.

This report offers an overview of the state's core finances and program initiatives as well as relevant economic data. It presents selected financial information for major funds, including the State's general fund and education trust fund, and financial information on a government-wide basis, in accordance with generally accepted accounting principles (GAAP). Readers that have a need for more information regarding the accounting policies, the various required accounting disclosures, and the financial status of individual state funds and component units, should obtain a copy of the State's Comprehensive Annual Financial Report (CAFR). The CAFR, which includes the independent auditor's report, can be accessed by viewing our web site or by contacting the Department.

New Hampshire like other states, continued to feel the stress from the recent recession. However, while many states had devastating revenue losses because of shortfalls in income tax proceeds related to declines in capital gains, New Hampshire's reliance on the statewide property tax and business enterprise tax added stability to its revenue structure. In 2003, revenue from traditional taxes grew 3.9%. Double-digit growth was seen in the tobacco and real estate transfer taxes. Also contributing to the increase over fiscal 2003, was receipt of the \$25 million Flexible Grant payment, which was budgeted to be received in 2004.

The combined General and Education Fund Balances, including reserves, at the end of the biennium totaled \$17.3 million, down from last year's balance of \$51.2 million. Prior to year-end transfers from the Health Care Fund and Rainy Day Account, the current year deficit was \$33.9 million. Coupled with the carry-forward deficit from fiscal 2002 of \$37.9 million, the June 30, 2003 cumulative deficit totaled \$71.8 million.

In response to economic pressures, the state issued several executive orders to help curb state spending; including appropriation reductions, freezes in travel, equipment and vacant positions. Moving into fiscal 2004, the state continues to monitor spending and as the economy strengthens, revenues should stabilize.

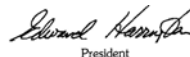
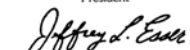

Donald S. Hill, Commissioner

Last years report received the Award for Outstanding Achievement in Popular Annual Financial Reporting from the Government Finance Officers Association (GFOA). This prestigious national award recognizes conformance with the highest standards for preparation of state and local government popular reports.

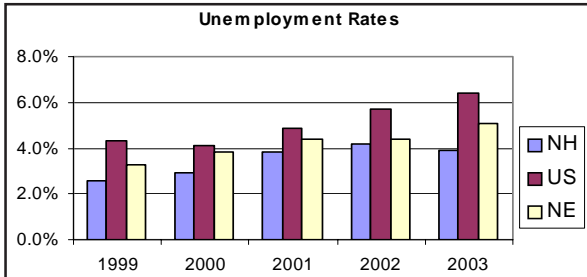
Award for Outstanding Achievement in Popular Annual Financial Reporting

Presented to
State of New Hampshire
for the fiscal year ending June 30, 2002




President

Executive Director

Despite stagnant economic conditions, New Hampshire continues to retain its advantages of being a medium cost state in a high cost area with its low unemployment rates, low tax burdens, highly skilled workforce, and small and accessible government. In addition, New Hampshire's proximity to metropolitan Boston will mean continued migration of people and business into the state.



New Hampshire's diversified economic foundation, with its high technology and entrepreneurial base, played an important role in keeping New Hampshire from a significant pro-longed recession. NH's technology base includes high tech manufacturing industries such as electronics and computer related products. In addition, the state has significant concentrations in employment in education and health services, leisure and hospitality, and retail trade, as compared to US averages.

As in the nation, the manufacturing section had the steepest employment decline in NH. From 1998 to 2003 the state lost 1 in 5 of its manufacturing employment.

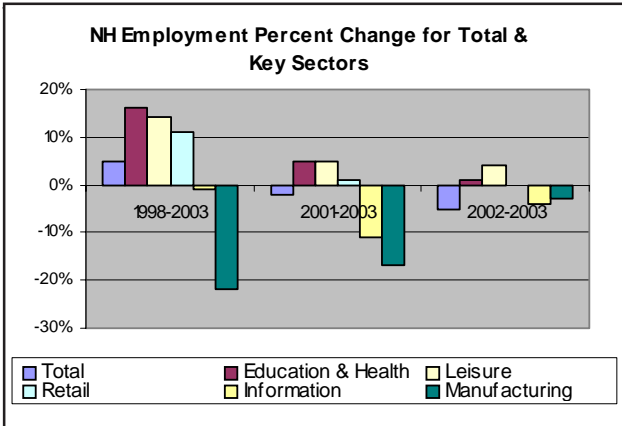
Economic Highlights of the Granite State

New Hampshire's Economic Scoreboard for 2003		
Categories	NH's National Rank	NH's Rank in New England
Favorable Tax Climate	1st	1st
Healthiest State (Morgan Quitno, 2002)	2nd	2nd
Standard of Living (by Poverty Rate)	1st	1st
Child and Family Well-Being (Annie E. Casey, 2002)	2nd	1st
Safest State (Morgan Quitno, 2002)	1st	1st
Most Livable State (Morgan Quitno, 2002)	3rd	1st
College Educated Population	11th	5th

Source: Dennis Delay, Economist

Another boost to NH's future economic development is its continued high quality of life. According to Morgan Quitno's Most Livable State Awards, NH remained near the top rankings in both New England and the nation.

The manufacturing employment loss in NH was concentrated in high technology manufacturing. A portion of this employment loss was with contract manufacturers who suffered from significant decline in orders. Even when orders in these industries recover with the general business cycle, it will not



recover in NH to their pre-late 1990s levels. However, since mid-2002, the manufacturing's decline in NH has slowed to below the regional and US averages.

According to the New England Economic Project's (NEEP) forecast, it is anticipated that New Hampshire's economy will continue to growth at rates higher than that of the region and nation, although NH's growth rates are expected to be well below those experienced in the late 1990s.

Major Initiatives

Enterprise Resource Planning (ERP)

With a view to replacing the Department of Administrative Services central business systems, the department has contracted with an information technology vendor to aid in developing of Enterprise Resource Planning (ERP) requirements and acquisition. The current financial and human resource systems are nineteen years old and will only be supported by the vendor for approximately 12 more months.

The IT vendor is working with the state to create a statewide strategic business plan, determine statewide ERP business needs, create an ERP systems requirement report, and assess the state’s central service technology structure. In addition, the vendor will participate in the development of a request for proposal (RFP) for the new ERP and aid in the selection of a software vendor and contract finalization. The 2003 capital budget included approximately \$18.8 million of appropriations for the ERP project.

New Office of Information Technology

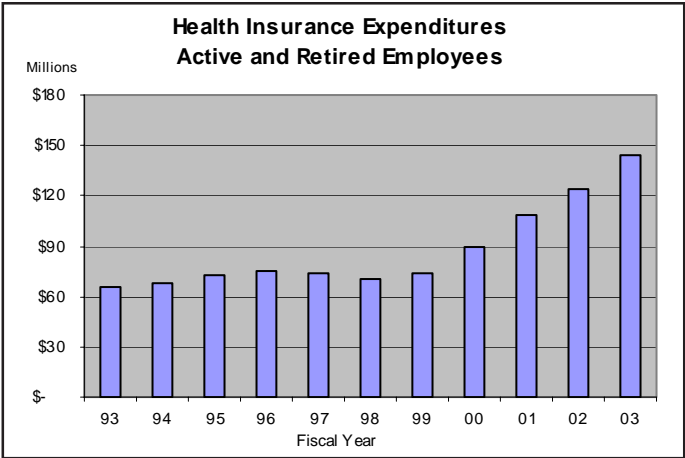
Pursuant to Chapter 223,Laws of 2003, the state established the Office of Information Technology (OIT) within the Governor’s Office and under the supervision of the chief information officer. On July 16, 2003 the Joint Legislative Fiscal Committee approved transferring 315 State IT employees from 9 agencies into the newly created office. The OIT continues to take shape towards its aggressive long-range goals.

The new OIT will create and sustain an IT environment that fully supports each agency’s mission, goals, and objectives while ensuring the careful and responsible management of the state’s IT resources. The office will strive to overcome redundancies and increase efficiencies in state government, maximize vendor relationships, and deliver innovative technology solutions.

Employee Benefit Risk Management Fund

Chapter 251, Laws of 2001, authorized the Commissioner of Administrative Services to provide a self-funded alternative to traditional insurance programs for employee benefits to aid in controlling the rise in insurance costs. To account for this activity and other employee benefit expenditures, the state established a new fund, titled the Employee Benefit Risk Management Fund. The fund was created to manage the state's self-insurance program and to pool all resources to pay for the cost associated with providing employee benefits.

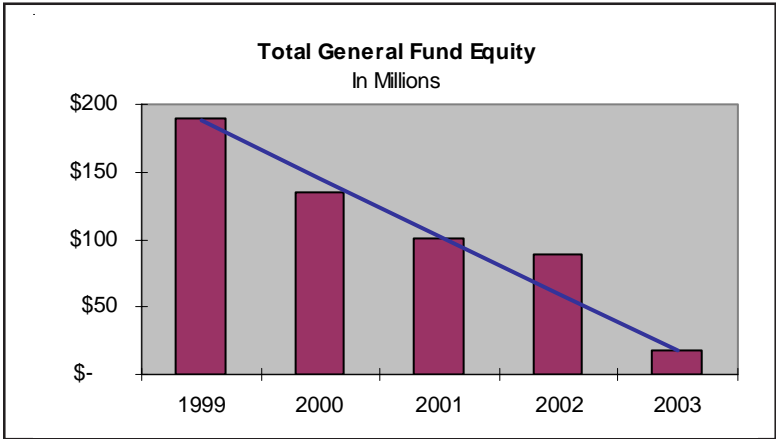
Agencies will be charged an actuarial determined premium to be paid into this new fund on a bi-weekly basis and will be efficiently assessed through the state’s payroll system. Claims payments by the third party administrator to the providers will be reimbursed by the state out of this new fund daily. The shift to a self-insurance enviroment, with a stop-loss coverage, was effective October 1, 2003.



Summary of General and Education Fund Balances

In Millions

	FY 2001	FY 2002			FY 2003		
	Total	General	Education	Total	General	Education	Total
Undesignated Fund Balance, July 1	70.3	(0.0)	0.0	0.0	(37.9)	0.0	(37.9)
Additions:							
Unrestricted Revenue	1,826.4	1,152.3	804.9	1,957.2	1,206.3	842.7	2,049.0
Transfers of Appr from General Fund	40.6	-	65.7	65.7	-	83.4	83.4
Total Additions	1,867.0	1,152.3	870.6	2,022.9	1,206.3	926.1	2,132.4
Deductions:							
Appropriations Net of Estimated Revenues	(1,941.5)	(1,228.5)	(887.6)	(2,116.1)	(1,264.7)	(904.5)	(2,169.2)
Less Lapses	33.1	26.1	0.4	26.5	20.7		20.7
Total Net Appropriations	(1,908.4)	(1,202.4)	(887.2)	(2,089.6)	(1,244.0)	(904.5)	(2,148.5)
GAAP and Other Adjustments	7.1	16.9	-	16.9	(17.8)	-	(17.8)
Current Year Balance	(34.3)	(33.2)	(16.6)	(49.8)	(55.5)	21.6	(33.9)
Fund Balance Transfers (To)/From:							
Rainy Day Fund	(35.2)	-	-	-	37.9	-	37.9
Health Care Fund	(0.8)	11.9	-	11.9	33.9	-	33.9
Education Trust Fund	-	(16.6)	16.6	-	21.6	(21.6)	-
Undesignated Fund Balance, June 30,	(0.0)	(37.9)	0.0	(37.9)	(0.0)	0.0	(0.0)
Reserved for Rainy Day Account	55.2	55.2		55.2	17.3		17.3
Reserved for Health Care Fund	45.8	33.9		33.9	-		-
Total Equity	101.0	51.2	0.0	51.2	17.3	0.0	17.3



Fund Balances (including reserve accounts) have been on a four-year steady decrease from its pre-education trust fund peak of \$188.3 million in fiscal 1999 to \$17.3 million in fiscal 2003. The June 30, 2003 General and Education Funds deficit of \$71.8 million (current year deficit of \$33.9 million and carry forward deficit \$37.9 million) was eliminated by year-end transfers from the Health Care Fund (HCF) and Rainy Day reserve accounts.

In accordance with Chapter 319:145 of the Laws of 2003, the HCF balance of \$33.9 was closed out to the General Fund. In accordance with Chapter 319:33, an additional \$37.9 million was transferred from the Rainy Day fund to eliminate the entire General Fund deficit. This transfer reduced the June 30, 2003 balance in the Rainy Day fund from \$55.2 million to \$17.3 million.

During the fiscal year, the original budget was amended by various supplemental appropriations and appropriation revisions. Fiscal 2003, budgetary expenditures, after lapses, totaled \$2.1 billion, which was a 2.8% increase over fiscal 2002. Additional appropriations were granted for employee pay raises totaling \$12.6 million. Even though benefit appropriations were increased (by \$4.4 million), the overall amounts were not sufficient to fund the increasing cost of health insurance coverage. In response to financial pressures brought on by the recession, the state made various budgetary adjustments in fiscal 2003 to reduce spending:

- Executive Order #2002-05 issued on June 12, 2002 reduced appropriations by \$8.9 million.
- Executive Order #2003-01 issued on January 15, 2003 reduced expenditures by freezing vacant positions, equipment, out of state travel, consultants and IT hardware.
- Executive Order #2003-05 issued on April 16, 2003 reduced appropriations by \$18.8 million.

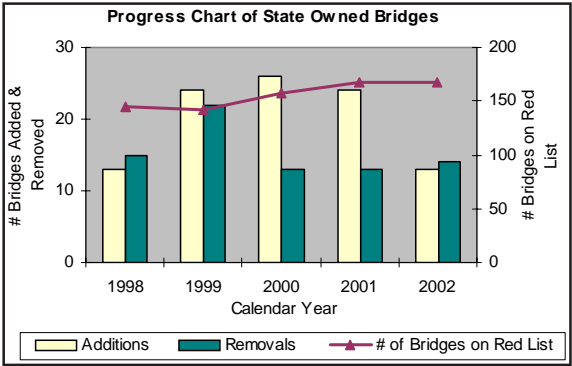
Year-end lapses totaled \$20.7 million, which were below original projections. The reduced lapse resulted from appropriation reduction efforts in the form of the above mentioned executive orders. In addition, lapses associated with employee benefits did not materialize, due to double digit increases in health insurance premiums.

Public Works

During fiscal year 2003, the NH Department of Transportation continued its efforts to enhance the state’s transportation system. A well-maintained system is essential to keeping New Hampshire accessible to its residents and tourists.

Major Projects:

- The completion of major roadway and bridge construction work, including the I-93 improvements over Bodwell Road in Manchester (\$14.2 mil), the interstate rehabilitation work on I-89 from Sunapee to Grantham (\$17.8 mil) and on I-93 from Thornton to Woodstock (\$14.0 mil).
- The rehabilitation of two arch bridges over the Connecticut River in Orford (\$5.1 mil) and Haverhill (\$4.6).



The Department's Red List reports bridges with known deficiencies. The calendar year Red List reported 167 state-owned bridges on the list, with 13 added while 14 were removed during the year.

- The construction of a new arch bridge over the Connecticut River in Chesterfield (\$15.4 mil) and the replacement of the US Route 4 Bridge over the Merrimack River in Boscawen (\$11.0 mil).

- The advertisement, by the Bureau of Highway Design, for approximately 40 construction contracts totaling approximately \$90 million, including projects to construct the NH 101/I-293 US 3 and Kilton Road interchange in Bedford and the first construction contract (\$9 million) for the NH Route 111 Bypass in Windham and Salem.

- The completion, by the Bureau of Bridge Maintenance, of 131 projects and the painting of structural steel on 20 bridges. Preventive maintenance included the washing of 841 bridges, the oiling of 511 bridges and the application of siloxane to four new bridges.

- The completion of several Federal Airport Improvement Projects at the following airports: Pease, Lebanon, Skyhaven (Rochester), Mt. Washington Regional, Boire Field (Nashua), Concord, Berlin, Laconia, Dillant-Hopkins (Keene) and the continued extensive growth and expansion at Manchester.

New Initatives:

- Three major initiatives were launched during fiscal 2003 to help motorists: the 511 traveler information system (telephone access) and the web-based CARS (Condition Acquisition Reporting System) and Foretell weather prediction system to provide real time traffic and weather information.

Unrestricted Revenue Highlights

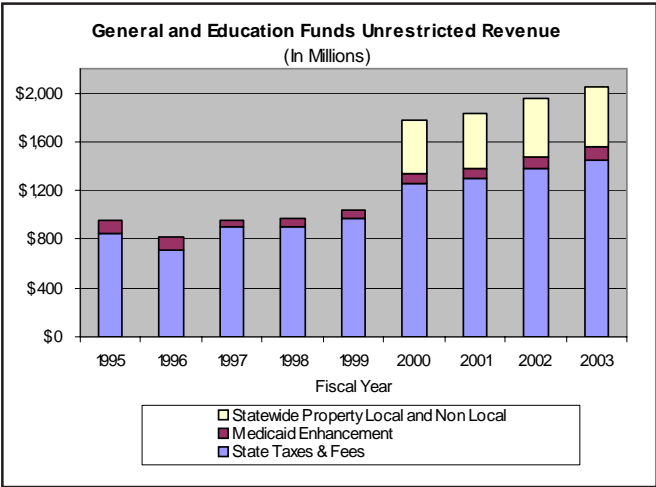
In Millions

Revenue Category	FY 2001	FY 2002			FY 2003			FY 2003 Combined	Change Over	
	Total	General	Education	Total	General	Education	Total	Plan	FY 2002	
Business Profits Tax.....	\$ 195.4	\$ 128.6	\$ 32.6	\$ 161.2	\$ 137.7	\$ 37.1	\$ 174.8	\$ 267.6	\$ 13.6	8.4%
Business Enterprise Tax.....	158.9	121.0	101.2	222.2	96.6	121.4	218.0	162.0	(4.2)	-1.9%
Subtotal.....	354.3	249.6	133.8	383.4	234.3	158.5	392.8	429.6	9.4	2.5%
Meals & Rooms Tax.....	164.0	164.0	6.6	170.6	168.7	6.7	175.4	193.4	4.8	2.8%
Tobacco Tax.....	86.4	60.3	24.0	84.3	67.1	27.0	94.1	85.0	9.8	11.6%
Liquor Sales and Distribution.....	89.3	96.2		96.2	99.0		99.0	96.5	2.8	2.9%
Interest & Dividends Tax.....	76.7	70.3		70.3	55.1		55.1	79.0	(15.2)	-21.6%
Insurance Tax.....	66.5	76.1		76.1	82.2		82.2	63.0	6.1	8.0%
Communications Tax.....	49.0	64.7		64.7	62.4		62.4	70.9	(2.3)	-3.6%
Real Estate Transfer Tax.....	89.2	66.4	33.1	99.5	78.8	39.4	118.2	102.5	18.7	18.8%
Estate and Legacy Tax.....	59.3	57.0		57.0	59.1		59.1	54.8	2.1	3.7%
Transfers from Sweepstakes.....	59.4		66.1	66.1		66.6	66.6	66.0	0.5	0.8%
Tobacco Settlement.....	38.7	5.7	40.0	45.7	5.9	40.0	45.9	40.0	0.2	0.4%
Utility Property Tax.....	15.6		18.2	18.2		18.8	18.8	20.5	0.6	3.3%
Property Tax Not Retained Locally.....	24.2		29.0	29.0		32.7	32.7	32.7	3.7	12.8%
Property Tax Retained Locally.....	418.0		454.1	454.1		453.0	453.0	453.0	(1.1)	-0.2%
Flexible Grant.....					25.0		25.0		25.0	100.0%
Other.....	137.6	127.5		127.5	135.1		135.1	135.7	7.6	6.0%
Subtotal.....	1,728.2	1,037.8	804.9	1,842.7	1,072.7	842.7	1,915.4	1,922.6	72.7	3.9%
Net Medicaid Enhancement										
Revenues.....	85.2	98.2		98.2	117.0		117.0	94.0	18.8	19.1%
Subtotal.....	1,813.4	1,136.0	804.9	1,940.9	1,189.7	842.7	2,032.4	2,016.6	91.5	4.7%
Other Medicaid Enhancement										
Revenues to Fund Net Appropriations..	13.0	16.3		16.3	16.6		16.6	13.4	0.3	1.8%
Total.....	\$ 1,826.4	\$ 1,152.3	\$ 804.9	\$ 1,957.2	\$ 1,206.3	\$ 842.7	\$ 2,049.0	\$ 2,030.0	\$ 91.8	4.7%

Despite the economic recession, General and Education Fund unrestricted revenues for fiscal year 2003 showed respectable increases over prior year. Unrestricted revenue totaled \$2,049.0 million, which was a \$19.0 million, or 1.0% increase over plan and a 4.7% increase over prior year. The plan represents the legislative estimates contained in the original budget that was adopted in June 2001. Any significant shortfalls or gains over plan in the first year (fiscal year 2002) of the biennium were expected to reoccur in the second year (fiscal year 2003) of the biennium.

Where Does the Money Come From?
70% comes from State Taxes & Fees, 24% from Statewide Property Tax (local & nonlocal), and 6% from Medicaid Enhancement revenues.

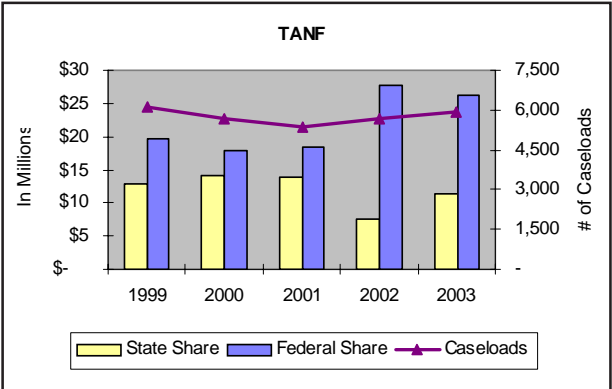
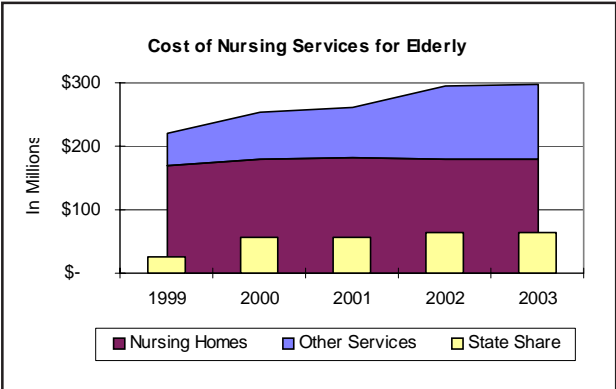
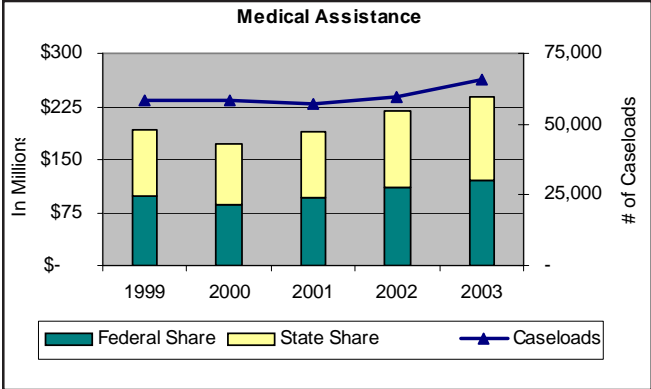
- Business Taxes** totaled \$392.8 million, \$36.8 million below plan but \$9.4 million (2.5%) over prior year.
- Meals and Rooms** totaled \$175.4 million, below plan by \$18.0 million but slightly ahead of prior year by \$4.8 million (2.8%).
- Insurance Tax** totaled \$82.2 million, which exceeded the plan by \$19.2 million and prior year by \$6.1 million (8.0%).



- Tobacco Tax** totaled \$94.1 million, a substantial increase over prior year (11.6%) due to the tax advantage over neighboring states.
- Real Estate Transfer Tax** again performed strongly, totaling \$118.2 million (18.8% over prior year) resulting from: increased home prices, sales activity spurred by low interest rates & the repeal of the tax exemption from business property transfers.
- Uniform Property Tax** was reduced to \$5.80 per \$1,000 of total equalized value from \$6.60 per thousand last year.
- Medicaid Enhancement Revenues (MER)** totaled \$117.0 million, which was a \$23.0 million increase over plan and \$18.8 million over prior year. Included in the MER is \$15.3 million that was recorded under the proportionate share program (Proshare). This amount represents the resolution of prior year claims that were deferred by the Federal Government in fiscal year 2002. Due to the uncertainty with the delay associated with receiving federal approval for the Medicaid Plan amendment, the fiscal year 2003 Proshare billing estimated at \$6.5 million and restricted revenue of \$3.8 million has not been recorded as revenue. The other major MER activities include the 6% hospital tax, which totaled \$84.6 million and disproportionate share revenues associated with New Hampshire Hospital which totaled of \$14.0 million.

Spending Highlights

Health and Social Services

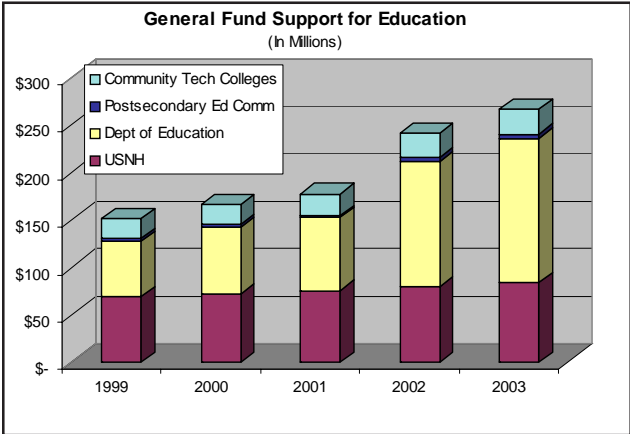


Where Does the Money Go? More Than 70% of State Spending is for HH&S (37.0%) and Education (33.0%) programs.

Health & Human Services (DHHS) represents the largest share of the state budget at \$1.4 billion (37% of the state total) with approximately 3,700 employees. 62% of the budget is derived from non-general funds from the federal government and other sources. DHHS is responsible for many of the regulatory, programmatic, and financial aspects of NH's health care system and plays a key role in the planning, delivery and financing of health care. It provides social and support services to families with chronically ill or disabled members and to families in crisis. DHHS also provides economic supports including child-care funding, financial grants, employment support services, medical assistance, food assistance and child support services.

17% of the DHHS budget is for medical assistance under the Office of Health Planning & Medicaid. These costs have been rising in recent years due to an increase in the number of users related to the recession and an increase in the cost of prescription drugs due both to utilization and rising drug prices. Another 18% of the DHHS budget is for nursing and medical services for the elderly. For a number of years, the state has capped the number of Medicaid beds and supported care for the needy elderly in less restrictive and less costly settings through home and community based services and mid-level care. Costs continue to rise, however, in response to the demographic changes of increases in the number of elderly and the rising cost of drugs. Temporary Assistance to Needy Families (TANF), which was referred to in the past as the welfare program, consumes less than 3% of the DHHS budget, but has seen significant changes. Welfare reform of past years along with a strong economy reduced the number of cases and cost. The recent economic slowdown has resulted in an increase in cases. Additionally, in 2002 and 2003, the state used a portion of its federal reserve to reduce general funds expenses. Other large dollar programs managed by DHHS are for the developmentally disabled (9.5% of the DHHS budget) and community mental health services (5.5% of DHHS budget).

Education



The state provides General Funds to support primary, secondary and higher education through the Department of Education, the Postsecondary Education Commission, the Community Technical College System, and the University System of New Hampshire (UNH).

State spending for primary and secondary education, through the Department of Education, experienced large increases during fiscal 2002 and 2003. This increase was attributable to the state's obligation to support "Adequate Education" opportunities for all state students. The General Fund portion of Adequacy increased from \$65 million to \$83 million, in fiscal 2003.

State spending, in the higher education programs, has shown slow but steady growth in past years and this trend will continue through the upcoming biennium. However, Capital Fund spending for various projects at UNH increased approximately \$23.1 million in fiscal 2003.

Government-Wide Financial Highlights

Last year the state implemented new accounting standards, which required the issuance of financial statements that report the state’s financial position and activities as a whole using the full accrual method of accounting. These new government-wide financial statements include a Statement of Net Assets and a Statement of Activities, both of which distinguish between the state’s governmental and business-type activities. Since this is the second year under the new standard, the statements include comparison data for fiscal 2002 and 2003.

The full accrual method of accounting is used by many businesses and recognizes revenue and expenses when the earning process is complete regardless of when cash is received or disbursed. This results in a long-term perspective on finances.

The Statement of Activities reports the expenses of each of the state’s programs reduced by the revenues generated by those programs to arrive at net program expense. The net program expense

is then reduced by general revenues and other gains and losses to arrive at a change in net assets for the year.

The Statement of Net Assets reports the state’s total assets and liabilities. The difference between assets and liabilities is reported as “net assets” instead of fund equity as shown on the fund statements. Over time, increases or decreases in the net assets may serve as a useful indicator of whether the financial position of the state is improving or deteriorating.

On both statements, governmental and business-type activities are segregated. Governmental Activities represent most of the state’s basic services and are generally supported by taxes, grants and intergovernmental revenues. Business-Type Activities are normally intended to recover all or a significant portion of their costs through user fees and charges to external users of goods and services.

Net Assets as of June 30, 2003 and 2002						
In Millions						
	Governmental		Business-type		Total	
	Activities		Activities		Primary Government	
	2003	2002	2003	2002	2003	2002
Current assets	\$ 704.0	\$ 719.4	\$ 351.2	\$ 396.6	\$ 1,055.2	\$ 1,116.0
Capital assets	1,779.1	1,874.2	520.3	518.2	2,299.4	2,392.4
Other assets	255.5	275.2	58.2	78.1	313.7	353.3
Total assets	2,738.6	2,868.8	929.7	992.9	3,668.3	3,861.7
Long-term liabilities	622.0	668.4	326.9	337.8	948.9	1,006.2
Other liabilities	408.1	359.9	65.0	62.1	473.1	422.0
Total liabilities	1,030.1	1,028.3	391.9	399.9	1,422.0	1,428.2
Net assets:						
Invested in capital assets, net of related debt	1,169.5	1,214.1	155.7	137.9	1,325.2	1,352.0
Restricted	245.4	296.4	328.9	401.5	574.3	697.9
Unrestricted	293.6	330.0	53.2	53.6	346.8	383.6
Total net assets	\$ 1,708.5	\$ 1,840.5	\$ 537.8	\$ 593.0	\$ 2,246.3	\$ 2,433.5

Net Assets

The state’s combined net assets (governmental and business-type activities) totaled \$2.2 billion at the end of 2003 compared to \$2.4 billion at the end of the previous year.

The largest portion of the state’s net assets (\$1.3 billion or 59.0%) reflects its investment in capital assets such as land, buildings, equipment, and infrastructure (roads and bridges), less any related outstanding debt used to acquire those assets. Although the state’s investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves generally cannot be used to liquidate these liabilities.

An additional portion of the state’s net assets (\$574 million or 25.6%) represents resources that are subject to external restrictions on how they may be used. Restricted net assets decreased \$123.6 million from prior year. As a result of continued economic pressures, the state tapped into reserve accounts for unemployment benefits, and revenue stabilization.

The remaining balance of unrestricted net assets (\$347 million) may be used to meet the state’s ongoing obligations to citizens and creditors. Internally imposed designations of resources are not presented as restricted net assets.

At the end of both the current and prior fiscal years, the state was able to report positive balances in all three categories of net assets, both for the government as a whole, as well as for its separate governmental and business-type activities.

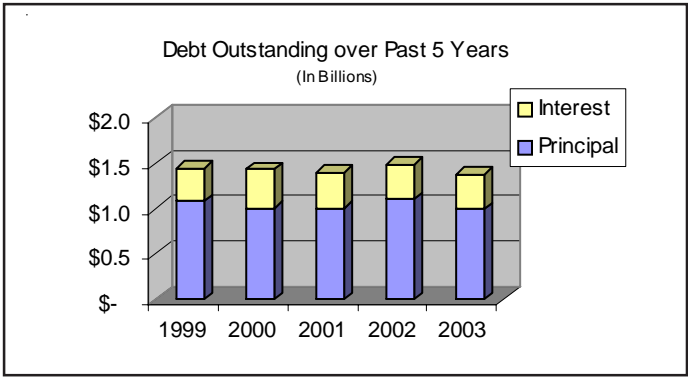
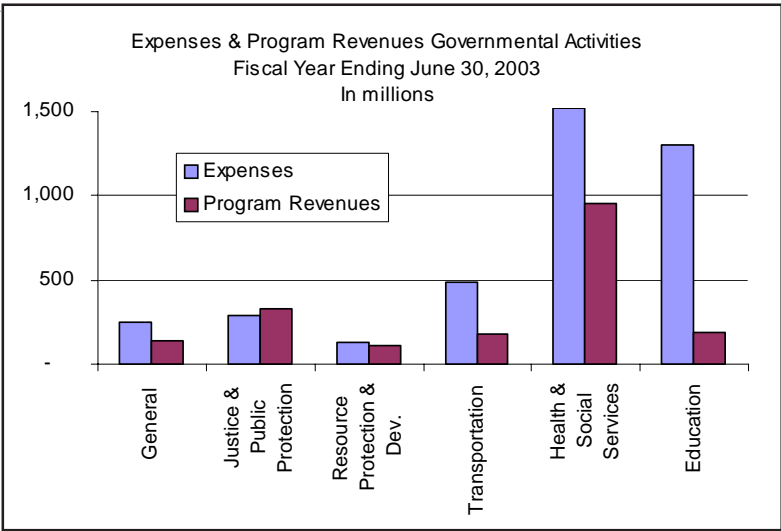
Changes in Net Assets

The state’s net assets decreased by \$187.2 million, or 7.7%, during the current fiscal year. Although total revenues increased by \$247.5 million (5.8%) it was not sufficient to offset the increase in expenses.

More than half of the state’s revenue is from program revenue, consisting of: charges for goods and services, and federal and local grants and contributions. Revenues not specifically targeted for a specific program are known as general revenues, which are primarily from taxes. The largest revenue increases were from federal operating grants to support health and social service programs and a combination of growth in several taxes including insurance, real estate, and tobacco.

The state’s expenses cover a range of services. The largest expenses were for Health and Social Services and Education, which accounted for 37% and 33% of total expenditures, respectively. As caseloads and overall health and social services have risen, expenses have seen double-digit growth over last year, and totaled over \$150 million. This is primarily associated with increased Medicaid program costs, including a rise in pharmaceuticals, increased assistance for TANF and Food Stamp program costs. As a result of the recent court decisions surrounding “adequacy grants” to schools; changes in legislation for such programs as “no child left behind” and “special education”; and capital projects at the University of New Hampshire, education expenses last year grew 7.3%.

Changes in Net Assets						
For Fiscal Years Ending June 30, 2003 and 2002						
In Millions						
	Governmental		Business-type		Total	
	Activities		Activities		Primary Government	
	2003	2002	2003	2002	2003	2002
Revenues						
Program revenues:						
Charges for services	558.3	491.2	732.7	727.0	1,291.0	1,218.2
Operating grants & contributions	1,194.2	1,003.6			1,194.2	1,003.6
Capital grants & contributions	153.6	200.4			153.6	200.4
General revenues:						
General Property Taxes	504.2	502.6			504.2	502.6
Special taxes	1,070.6	1,059.1			1,070.6	1,059.1
Personal taxes	94.0	84.2			94.0	84.2
Business License taxes	145.5	141.9			145.5	141.9
Interest	7.9	1.3			7.9	1.3
Miscellaneous	48.8	51.0			48.8	51.0
Total revenues	3,777.1	3,535.3	732.7	727.0	4,509.8	4,262.3
Expenses						
General government	250.2	265.9			250.2	265.9
Administration of justice and public protection	284.0	231.3			284.0	231.3
Resource protection and development	128.3	115.7			128.3	115.7
Transportation	488.9	419.0			488.9	419.0
Health and social services	1,516.2	1,358.8			1,516.2	1,358.8
Education	1,301.2	1,212.1			1,301.2	1,212.1
Interest Expense	28.5	30.6			28.5	30.6
Turnpike System			58.1	55.7	58.1	55.7
Liquor Commission			277.1	260.0	277.1	260.0
Sweepstake Commission			157.1	149.8	157.1	149.8
Unemployment Compensation			143.4	120.6	143.4	120.6
Total expenses	3,997.3	3,633.4	635.7	586.1	4,633.0	4,219.5
Inc.(dec.) in net assets before transfers	(220.2)	(98.1)	97.0	140.9	(123.2)	42.8
Transfers & Other Items	88.2	141.0	(152.2)	(148.7)	(64.0)	(7.7)
Increase(decrease) in net assets	(132.0)	42.9	(55.2)	(7.8)	(187.2)	35.1
Net assets, beginning of year	1,840.5	1,797.6	593.0	600.8	2,433.5	2,398.4
Net assets, end of year	1,708.5	1,840.5	537.8	593.0	2,246.3	2,433.5



Debt Administration

The state may issue general obligation bonds, revenue bonds, and notes in anticipation of such bonds, as authorized by the legislature and governor and council. The state’s bonds are used for capital projects, not to fund general government operations. The total outstanding bonded debt was \$943.1 million at June 30, 2003.

During fiscal 2003, the state had issued \$96.2 million in refunding bonds and \$10.0 million in Capital Improvement bonds. In addition, the state had \$50.0 million of bond anticipation notes outstanding at June 30, 2003.

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This report is available on our web site. Requests for additional reports can be done by contacting the Department.

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